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by hand and electronic mail

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, MA 02110

Re: Sixth Annual Price Cap Compliance Filing, D.T.E. No. 00-101

Dear Ms. Cottrell:

In lieu of filing a brief, I am writing this letter on behalf of AT&T Communications of New England, Inc.

In its December 4, 2000, Petition To Suspend, AT&T raised four issues: (1) the lack of demonstrated price floor compliance with a final price floor order from the Department; (2) Verizon's use of new services to meet price cap requirements based on assumed "take rates" for the new services for which no support is provided; (3) Verizon's use of rates and quantities of wholesale services not subject to the price cap plan to determine the compliance of services subject to the price cap plan; and (4) upon the introduction of new services, Verizon's failure to provide other parties with its purported demonstration such services satisfy a price floor requirement.

With regard to the first issue, the Department has stated that it will require Verizon to comply with its price floor order.

The second issue relates to the implicit "take rate" assumptions that Verizon uses for new services to (purportedly) demonstrate price cap compliance. See, D.P.U. 96-68 (April 14, 1997), at 27 ("Since the number of customers migrating to the new service from an existing service is subject to an element of uncertainty, the Department must further determine whether NYNEX's demand assumptions are reasonable."). AT&T recommends that the Department handle the "take rate" assumption issue in the same manner as it did in D.P.U. 96-68. In that case, the Department stated:

Accordingly, the Department directs NYNEX to reconcile its demand estimates with actual subscription levels and to propose any necessary revenue adjustments in its Third Annual Compliance Filing. In addition, because NYNEX also estimated demand changes in calculating the revenue impact of Business Link, the Department directs NYNEX to reconcile demand estimates with actual subscription levels and to propose any necessary revenue adjustments to Business Link in its Third Annual Compliance Filing.

Id. at 28. A reconciliation is necessary because, at least in the case of the Eastern LATA plan at issue in D.P.U. 96-68, it became apparent in the subsequent reconciliation filing that Verizon's assumptions regarding the "take rate" had been overstated. In the absence of the reconciliation, therefore, Verizon would have

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taken "credit" for rate reductions that it did not provide. Given Verizon's track record, when Verizon relies on assumptions to satisfy the pricing rules of the price cap plan, it is important that the Department test the assumptions or require Verizon to adjust for reality once it becomes known.

The third and fourth issues identified by AT&T raise important policy considerations, which can be more appropriately addressed in a general investigation to determine the proper form of Verizon price regulation when the current price cap regime ends in August of this year. The Department has determined that such an investigation will take place in D.T.E. 01-31. AT&T recommends that the Department consider in that investigation the second two issues that AT&T raises here. Moreover, the investigation in D.T.E. 01-31 should address the establishment of Verizon starting rates from which future price changes would be permitted under the new pricing rules. The relationship between those starting rates and the rates for unbundled network elements will determine the future of local exchange competition in Massachusetts.

Very truly yours,

Jay E. Gruber  
Enclosures  
cc: Service List (attached)